

June 12, 2003

TO: Directors, Private Schools for the Disabled
Auditors, Private Schools for the Disabled

FROM: Richard Rosenberg, Assistant Commissioner
Division of Finance

SUBJECT: Annual Information - Private Schools for the Disabled – Auditor Independence

On April 4, 2001, the State Board of Education adopted N.J.A.C. 6A:23-4.1 et seq. Tuition for Private Schools for the Disabled which became effective July 1, 2001. Section 4.9(a) of the code clearly defines auditor independence for individuals who perform the year-end audit function of a private school for the disabled. The code reads as follows:

Regardless of the fiscal year of the school, each approved private school for the disabled shall, by November 1 of each year, submit to the Commissioner audited financial statements based on the July 1 to June 30 school year. The audit shall be prepared by an independent registered municipal accountant of New Jersey or an independent certified public accountant of New Jersey. The accountant shall hold an uncanceled registration license as a public school accountant of New Jersey. Independence will be determined in accordance with standards set forth in the Code of Professional Ethics issued by, and available from, the American Institute of Certified Public Accountants (AICPA). Additionally, an accountant shall not be considered independent if such accountant or members of his or her firm are engaged to perform services other than the year-end audit and tax return functions for the private school for the disabled.

Please be advised, if the year-end auditor performs any additional financial service for the private school other than the preparation of tax returns, the auditor will be considered not to be independent and the cost of the audit will be considered non-allowable.

Additionally, various parties have questioned whether an outside accountant who provides various financial services to the private school may also perform preliminary audit functions (attest and regulatory compliance functions) towards the completion of the year-end audit. Though the standards in the Code of Professional Ethics issued by the American Institute of Certified Public Accountants would not preclude the above actions, the State Board of Education has deemed that a more stringent criteria for auditor

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independence was needed for the certification of tuition rates paid by public schools with taxpayer funds. If the department finds evidence that an outside accountant provided services contrary to N.J.A.C. 6A:23-4.9(a), the department would disallow both the costs of the year-end audit and preliminary audit services and report both the outside accountant and year-end auditor to the New Jersey State Board of Accountancy for further action.

An outside accountant may provide such services as write-up work, management advisory services, preparation of payroll and year-end tax returns and preparation of monthly, quarterly and year-end financial statements as long as the individual is not involved in any type of attest or regulatory compliance activities associated with the year-end audit. For example, an individual may provide management advisory services, prepare year-end tax returns and prepare the financial statements as long as the financial statements were compilations prepared from the school's records and represent the product of the school's management. However, an outside accountant who does not meet the independence rules of the State Board of Education cannot perform under any circumstances any procedures required by Generally Accepted Auditing Standards (GAAS) to complete the attest function and cannot perform any procedures required by the Department of Education to complete the regulatory compliance function. Therefore, an accountant who meets the independence rules of the State Board of Education must personally perform all attest and regulatory compliance procedures. Any accountant who accepts any such work from an accountant who does not meet the independence rules of the State Board of Education will not be considered independent as well.

Any questions concerning this memorandum should be referred to Jim Verner at (609) 984-4229 or Elise Sadler-Williams at (609) 777-4483.

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c: Dwight Pfennig
J. Michael Rush
Gloria Hancock
Isaac Bryant
Gordon MacInnes
Albert A. Monillas
Richard Ten Eyck
Judith Weiss
Katie Attwood
Barbara Gantwerk
Raymond Montgomery
Cecelia Downey
Anthony Hearn
County Superintendents
County School Business Administrators
County Supervisors of Child Study
Judy Vazquez
Jim Verner
Elise Sadler-Williams